

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ontonagon Area School District	County Ontonagon
Audit Date 6/30/05	Opinion Date 9/30/05	Date Accountant Report Submitted to State: 11/3/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

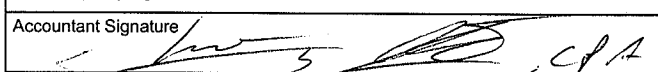
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address Po Box 828	City Iron Mountain	State MI	ZIP 49801
Accountant Signature 		Date 11-3-05	

ONTONAGON AREA SCHOOL DISTRICT

REPORT ON FINANCIAL STATEMENTS
(with additional information)

For the Year Ended June 30, 2005

ONTONAGON AREA SCHOOL DISTRICT

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

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Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Ontonagon Area School District
Ontonagon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ontonagon Area School District ("District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's Board of Education and management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the District's Board of Education and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Ontonagon Area School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the required supplemental information identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Iron Mountain, Michigan
September 30, 2005

Ontonagon Area School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2005

Ontonagon Area School District's Management Discussion and Analysis is intended to assist the reader to focus on significant financial issues, provide an overview of the District's financial activity, and identify changes in the District's financial position including its ability to address the next and subsequent years' challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2005.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
(other than MD&A expanded)

As mentioned, GASB 34 requires the presentation of two basic types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

District-Wide Financial Statements

The District-Wide Financial Statements provide a perspective of the District as a whole. These financial statements use the full accrual basis of accounting similar to private sector companies. There are two District-Wide Financial Statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets combines and consolidates governmental funds: current financial resources (short-term available resources) with capital assets and long-term obligations, regardless of their current availability.

Consistent with the full accrual basis method of accounting, the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

Ontonagon Area School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2005

Fund Financial Statements

The Fund Financial Statements are similar to financial presentations of years past, but the new focus is on the District's Major Funds rather than fund types as in the past. The two Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. Consistent with previous years, the fund statements are reported using the modified accrual method of accounts. Under this basis of accounting, revenues are recorded when received, except when they are measurable and available and therefore represent resources that may be appropriated. Expenditures are accounted for in the period those goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as an asset. Debt payments are recorded as expenditures in the current year, and future debt obligations are not recorded.

Fund types include the General Fund, School Service Fund, Debt Retirement Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions and grants, and other intergovernmental revenues. The School Service Fund is comprised of Athletic Activities and Food Service. The Debt Retirement Fund is used to record the funding and payment of principal and interest on bonded debt. The Fiduciary Funds account for assets held by the District in a trustee capacity, or as an agent for various student groups and related activities.

Ontonagon Area School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2005

Financial Analysis of the District as a Whole

Summary of Net Assets

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Assets:		
Current assets	\$ 2,084,758	\$ 2,235,722
Net capital assets	1,373,987	1,438,081
Noncurrent assets	<u>87,162</u>	<u>-</u>
Total assets	<u>3,545,907</u>	<u>3,673,803</u>
Liabilities:		
Current liabilities	1,500,791	1,393,255
Long term liabilities	<u>2,620,640</u>	<u>2,878,335</u>
Total liabilities	<u>4,121,431</u>	<u>4,271,590</u>
Net Assets:		
Invested in capital assets, net of related debt	(1,374,792)	(1,614,992)
Restricted for debt service	185,186	297,488
Unrestricted	<u>614,082</u>	<u>719,717</u>
Total net assets	<u>\$ (575,524)</u>	<u>\$ (597,787)</u>

The School District's net assets (deficit) were \$(575,524) at June 30, 2005, compared to \$(597,785) at June 30, 2004. Total net assets can be separated into three categories: invested in capital assets, net of related debt, restricted assets for debt service, and unrestricted assets.

Net capital assets are a combination of funds available for capital assets less accumulated depreciation and related debt. The original cost of capital assets was \$5,916,674 at June 30, 2005, and \$5,845,747 at June 30, 2004. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less any estimated salvage value, expensed over the estimated use life of the assets. Total accumulated depreciation was \$4,542,687 at June 30, 2005, and \$4,407,666 at June 30, 2004. Total debt related to capital assets was \$2,475,941 at June 30, 2005, and \$3,053,073 at June 30, 2004.

Restricted assets for debt are funds, by their nature, restricted for use by laws or regulations by the State of Michigan. These funds totaled \$185,186 at June 30, 2005, compared to \$297,488 at June 30, 2004.

Ontonagon Area School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2005

The remaining balance in unrestricted assets represents an excess balance of \$614,082 at June 30, 2005, and \$719,719 at June 30, 2004.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the District-Wide results of operations for the years ended June 30, 2005 and June 30, 2004 is as follows:

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Program revenue		
Charges for services-local	\$ 200,895	\$ 163,484
Operating grants - federal state local	<u>611,869</u>	<u>643,566</u>
Total program revenue	<u>812,764</u>	<u>807,050</u>
General revenue		
Property taxes levied for general operations	961,687	917,277
Property taxes levied for debt service	337,365	328,168
State of Michigan aid, unrestricted	3,435,311	3,429,087
Other- federal, state and local	<u>286,349</u>	<u>360,511</u>
Total general revenue	<u>5,020,712</u>	<u>5,035,043</u>
Total revenue	<u>5,833,476</u>	<u>5,842,093</u>
Expenses		
Instruction	3,138,942	3,216,357
Support services	1,898,654	1,835,045
School service	396,687	382,146
Interest on long term debt	150,826	229,349
Depreciation (unallocated)	<u>226,104</u>	<u>166,962</u>
Total expenses	<u>5,811,213</u>	<u>5,829,859</u>
Increase in net assets	22,263	12,234
Net Assets July 1	<u>(597,787)</u>	<u>(610,021)</u>
Net Assets June 30	<u>\$ (575,524)</u>	<u>\$ (597,787)</u>

Ontonagon Area School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2005

GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS

The overall condition of the governmental funds has increased during June 30, 2005, and increased during June 30, 2004. In the General Fund, the excess of expenditures over revenues totaled \$(32,666) during fiscal year June 30, 2005, and \$(49,920) during fiscal year June 30, 2004. The primary factors that contributed to this were declining enrollment, increased employees' insurance and retirement costs, and a third year of no base funding increases through the Department of Education.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments are known. The most significant fund budgeted is the General Fund operations. The General Fund operating budget was amended two times during fiscal year 2005.

General Fund Operations

In the General Fund operations, the actual revenue for fiscal year June 30, 2005 was \$5,203,168. This is below the original budget of \$5,216,654 and below the final budget of \$5,329,825 - a variance of (2.38)%. The actual expenditures of the general fund for fiscal year June 30, 2005 operations were \$5,231,869. This is below the original budget of \$5,459,475 and below the final budget of \$5,592,297 - a variance of 6.44%.

The variances between the actual revenues and the original and final revenue budgets are due primarily to the following.

- Adjustment of state aid to actual enrollment numbers,
- Adjustment of federal grant funds when confirmation of allocations was received.
- Adjustment of federal national forest revenues to actual.
- Adjustment for financing of two buses during fiscal year.
- Additional vocational equipment funding made available at end of year.
- Deferral to 2005-06 fiscal year of unspent State categorical funds.

Ontonagon Area School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2005

The variances between the actual expenditures and the original and final expenditure budgets are due primarily to the following.

- Teacher contract negotiations not settled at beginning of fiscal year.
- Support staff contract not settled until end of fiscal year.
- Staff changes required to appropriately utilize available grant funds.
- Long-term staff absences resulting in unspent wage and fringe allocations.
- No staff retirements resulting in no severance pay costs.
- Contracted superintendent resulting in reduced wage and retirement costs.
- Financial adjustment for unexpected mid-year tragedy in high school administration.
- Increase in staff "co-pay" insurance plans which reduced district portion of costs.
- Purchase of two buses and utility van during fiscal year.
- Increased cost of utilities (heating, diesel fuel, electricity, waste) during fiscal year.
- Reduced costs for computer and Internet supplies and maintenance.
- Various budgeted supplies not expended.

GOVERNMENTAL FUND EXPENDITURES

Below is a summary of the governmental fund expenditures and their percentages as they relate to total governmental funds:

	Total Expenditures <u>June 30, 2005</u>	<u>Percentage</u>	Total Expenditures <u>June 30, 2004</u>	<u>Percentage</u>
General Fund	\$ 5,231,869	86.02%	\$ 5,177,175	88.26%
Nonmajor Funds	<u>849,951</u>	<u>13.98%</u>	<u>688,617</u>	<u>11.74%</u>
Total Expenditures	<u><u>\$ 6,081,820</u></u>	<u><u>100.00%</u></u>	<u><u>\$ 5,865,792</u></u>	<u><u>100.00%</u></u>

Ontonagon Area School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2005

TOTAL REVENUES

Below is a summary of the governmental fund revenues and their percentages as they relate to governmental funds.

	Total Revenue <u>June 30, 2005</u>	<u>Percentage</u>	Total Revenue <u>June 30, 2004</u>	<u>Percentage</u>
State of Michigan Aid unrestricted	\$ 3,435,311	58.89%	\$ 3,429,087	58.70%
Prop taxes general operation	961,687	16.49%	917,277	15.70%
Operating grants federal state local	611,869	10.49%	643,566	11.02%
Prop taxes debt retirement	337,365	5.78%	328,168	5.62%
Charges for services - local	200,895	3.44%	163,484	2.80%
Other federal state local	<u>286,349</u>	<u>4.91%</u>	<u>360,472</u>	<u>6.17%</u>
Total Revenues	<u>\$ 5,833,476</u>	<u>100.00%</u>	<u>\$ 5,842,054</u>	<u>100.00%</u>

Unrestricted State Aid

The District is predominately funded by State Aid based on a blended count formula that the State of Michigan utilizes. State revenues to the District have decreased as a result of decreased enrollment from the previous year. State aid membership was 628.88 for fiscal year June 30, 2005 and 646 for fiscal year June 30, 2004.

Property Taxes

The District levies 18 mills of property taxes on all Non-Homestead property located within the District for General Fund operations. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate of the prior year or 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value.

The District levied 3.6 mills of property taxes on all classes of property located within the District for bonded debt retirement. The levy is not subject to rollback provisions and is used to pay the principal and interest on bond obligations. The District refinanced its bond obligations during 2004-05 which will change the property tax levy in 2005-06.

Ontonagon Area School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2005

Operating Grants Federal, State, and Local

The primary sources are the Federal Title One Program, the State funded At Risk Program and the Special Education Obligation funds required under the Headlee Amendment, State of Michigan legislation. Both Title One and At Risk Programs assist students who are deemed to be at risk in the instruction process. For the 2004-2005 fiscal year, the District has utilized \$134,344 for the Title One and \$99,910 for the State At Risk programs. For fiscal year 2005 the State, under the Headlee amendment, is obligated to remit to the District \$123,467.

ENROLLMENT

The District's 2004-2005 fall enrollment totaled 600. This is a decrease of 26 students from the previous year. Ontonagon Area School District is located in Michigan's Upper Peninsula. The area continues to work through difficult economic times. Some employers in the area have closed their doors, with others reducing their labor force. As a result of this, families have moved out of the area. The neighboring school district of White Pine currently tuitions out its grades 7-12 students which has aided Ontonagon School District's revenues.

Enrollment changes over the last ten years can be illustrated as follows:

<u>Fiscal Year</u>	<u>(Fall) Student Enrollment</u>	<u>in Student Enrollment</u>
2005	632	(25)
2004	657	10
2003	647	(11)
2002	658	3
2001	655	(20)
2000	675	(17)
1999	692	(42)
1998	734	(20)
1997	754	(12)
1996	766	(5)
1995	771	

Student enrollment is important to the financial health of the District because state funding is based on a per pupil formula.

**Ontonagon Area School District
Management Discussion and Analysis
(Unaudited)
For the Fiscal Year Ended June 30, 2005**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year 2005, the District had \$5,916,674 invested in land and building, furniture and equipment, vehicles and buses compared to \$5,845,747 at June 30, 2004. Of this amount, \$4,542,687 and \$4,407,666 has been depreciated at June 30, 2005 and June 30, 2004 respectively. Net book value totaled \$1,373,987 at June 30, 2005, and \$1,438,081 at June 30, 2004. Due to budget constraints related to declining enrollment and the State of Michigan financial status, the ability to maintain these buildings is becoming increasingly difficult. The District maintains a \$500 threshold for capitalization of assets.

Outstanding Debt at Year End

As of June 30, 2005 the District had \$2,692,684 in bonds outstanding, compared to \$2,992,684 at June 30, 2004. The District collects bonded debt across the total property values. Therefore, total growth in valuation is an important element in determining the District's ability to retire bonded debt and/or to incur additional bond debt.

For more detailed information regarding capital assets and debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the Ontonagon Area School District. For additional detailed financial information contact:

Marilyn Anderson
Business Manager
Ontonagon Area School District
301 Greenland Road
Ontonagon, MI 49953
Office Telephone (906) 884-4963
Fax Telephone (906) 884-2057



ONTONAGON AREA SCHOOL DISTRICT

STATEMENT OF NET ASSETS (DEFICIT)

June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and equivalents	\$ 792,333
Investments	358,532
Accounts receivable	28,499
Inventory	40,725
Prepaid expenses	41,456
Due from other governments	<u>823,213</u>
Total current assets	<u>2,084,758</u>
Noncurrent assets:	
Other assets	87,162
Capital assets	5,916,674
Accumulated depreciation	<u>(4,542,687)</u>
Total noncurrent assets	<u>1,461,149</u>
TOTAL ASSETS	<u>3,545,907</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	34,546
Accrued interest	26,074
Accrued expenses	396,405
Due to other governments	587,250
Deferred revenues	128,589
Compensated absences	104,332
Notes payable	42,446
Early retirement	8,294
Bonds payable	<u>172,855</u>
Total current liabilities	<u>1,500,791</u>
Noncurrent liabilities:	
Notes payable	100,811
Bonds payable	<u>2,519,829</u>
Total noncurrent liabilities	<u>2,620,640</u>
TOTAL LIABILITIES	<u>4,121,431</u>
NET ASSETS (DEFICIT):	
Invested in capital assets, net of related debt	(1,374,792)
Restricted for debt service	185,186
Unrestricted	<u>614,082</u>
TOTAL NET ASSETS (DEFICIT)	<u>\$ (575,524)</u>

The accompanying notes to the financial statements are an integral part of this statement.



ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

ONTONAGON AREA SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2005

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets
				Primary Government
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<u>FUNCTIONS/PROGRAMS</u>				
PRIMARY GOVERNMENT:				
Governmental Activities:				
Instruction	\$ 3,138,942	\$ -	\$ 446,063	\$ (2,692,879)
Support	1,898,654	74,236	26,662	(1,797,756)
School service	396,687	126,659	139,144	(130,884)
Depreciation	226,104	-	-	(226,104)
Debt interest, fees and expenses	150,826	-	-	(150,826)
TOTAL PRIMARY GOVERNMENT	5,811,213	200,895	611,869	(4,998,449)

General revenues:

Property taxes	\$ 1,299,052
State revenue sharing	3,435,311
Grants and contributions not restricted to specific programs	218,219
Unrestricted investment earnings	28,434
Other	39,696
Total general revenues and transfers	5,020,712
Changes in net assets	22,263
Net assets (deficit), beginning of year	(597,787)
Net assets (deficit), end of year	\$ (575,524)

The accompanying notes to the financial statements are an integral part of this statement.

ONTONAGON AREA SCHOOL DISTRICT**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2005

	General	Nonmajor Governmental	Total Governmental Funds
ASSETS:			
Cash and equivalents	\$ 699,097	\$ 93,236	\$ 792,333
Investments	341,357	17,175	358,532
Accounts receivable	19,812	8,687	28,499
Inventory	33,957	6,768	40,725
Prepaid expenses	41,456	-	41,456
Due from other funds	-	3,144	3,144
Due from other governments	823,213	-	823,213
Other assets	-	87,189	87,189
TOTAL ASSETS	<u>\$ 1,958,892</u>	<u>\$ 216,199</u>	<u>\$ 2,175,091</u>
LIABILITIES:			
Accounts payable	\$ 30,626	\$ 3,920	\$ 34,546
Due to other funds	3,144	-	3,144
Due to other governmental units	587,250	-	587,250
Accrued expenses	148,722	-	148,722
Salaries payable and related items	247,710	-	247,710
Deferred revenue	128,589	-	128,589
TOTAL LIABILITIES	<u>1,146,041</u>	<u>3,920</u>	<u>1,149,961</u>
FUND BALANCE AND OTHER CREDITS:			
Fund balances:			
Reserved	-	185,186	185,186
Unreserved-Designated	249,654	-	249,654
Unreserved-Undesignated	563,197	27,093	590,290
TOTAL FUND BALANCE AND OTHER CREDITS	<u>812,851</u>	<u>212,279</u>	<u>1,025,130</u>
TOTAL LIABILITIES, FUND BALANCE AND OTHER	<u>\$ 1,958,892</u>	<u>\$ 216,199</u>	<u>\$ 2,175,091</u>

The accompanying notes to the financial statements are an integral part of this statement.



ONTONAGON AREA SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

For the Year Ended June 30, 2005

Total fund balances for governmental funds	\$ 1,025,130
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Total net assets reported for governmental activities in the statement
of net assets is different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. Those assets
consist of:

Total capital assets	5,916,674	
Accumulated depreciation	<u>(4,542,687)</u>	
Net capital assets		1,373,987

Long-term liabilities applicable to the District's governmental
activities are not due and payable in the current period and accordingly
are not reported as fund liabilities. Interest on long-term debt is not
accrued in governmental funds, but rather is recognized as an
expenditure when due. All liabilities, both current and long-term, are
reported in the statement of net assets.

Accrued interest on long-term debt	\$ (26,074)	
Bonds payable	(2,692,684)	
Notes payable	(143,257)	
Teachers early retirement	(8,294)	
Compensated absences	<u>(104,332)</u>	<u>(2,974,641)</u>
Total net assets of governmental activities		\$ <u>(575,524)</u>



ONTONAGON AREA SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2005

REVENUES:	General	Nonmajor Governmental	Total Governmental Funds
Local sources	\$ 1,098,491	\$ 474,667	\$ 1,573,158
State sources	3,412,739	22,572	3,435,311
Federal sources	271,706	133,069	404,775
TOTAL REVENUES	4,782,936	630,308	5,413,244
EXPENDITURES:			
Instruction:			
Current	3,140,652	-	3,140,652
Capital outlay	45,091	-	45,091
Supporting services:			
Current	1,911,615	-	1,911,615
Capital outlay	117,107	-	117,107
Debt service	-	453,264	453,264
School service activities	-	396,687	396,687
TOTAL EXPENDITURES	5,214,465	849,951	6,064,416
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(431,529)	(219,643)	(651,172)
OTHER FINANCING SOURCES (USES):			
Payments received from other governmental units	411,647	-	411,647
Transfers in	-	109,965	109,965
Other sources	8,585	-	8,585
Loan proceeds	106,000	-	106,000
Other (uses)	(17,404)	-	(17,404)
Transfers out	(109,965)	-	(109,965)
TOTAL OTHER FINANCING SOURCES (USES)	398,863	109,965	508,828
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(32,666)	(109,678)	(142,344)
FUND BALANCE, JULY 1	845,517	321,957	1,167,474
FUND BALANCE, JUNE 30	\$ 812,851	\$ 212,279	\$ 1,025,130

The accompanying notes to the financial statements are an integral part of this statement.



ONTONAGON AREA SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2005

Net changes in fund balances – total governmental funds	\$(142,344)
---	-------------

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense \$(226,104) exceeded capital outlay \$162,010.	(64,094)
--	----------

Bond and loan proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

New debt:

Bonds payable	(2,485,000)
Notes payable	(106,000)

Principal repayments:

Bond principal	2,785,000
Notes payable	<u>23,132</u>
	217,132

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Early retirement obligation	8,294
Compensated absences	837
Accrued interest	<u>2,438</u>

Changes in net assets of governmental activities	\$ <u>22,263</u>
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ONTONAGON AREA SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

June 30, 2005

	Expendable Trust Fund	Non-Expendable Trust Fund	Agency Fund
	<u>Scholarships</u>	<u>Scholarships</u>	<u>Student Activity</u>
ASSETS:			
Cash & Investments	\$ 5,136	\$ 4,740	\$ 42,444
LIABILITIES:			
Due to student groups	-	-	42,444
NET ASSETS:			
Reserved	<u>\$ 5,136</u>	<u>\$ 4,740</u>	<u>\$ -</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.

ONTONAGON AREA SCHOOL DISTRICT

CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS

For the Year Ended June 30, 2005

	Expendable Trust Fund <u>Scholarships</u>	Non -Expendable Trust Fund <u>Scholarships</u>
ADDITIONS:		
Interest and contributions	\$ 250	\$ 91
Transfers in	<u>91</u>	<u>-</u>
TOTAL ADDITIONS	<u>341</u>	<u>91</u>
DEDUCTIONS:		
Scholarships / Charges	-	-
Tranfers out	<u>-</u>	<u>91</u>
TOTAL DEDUCTIONS	<u>-</u>	<u>91</u>
Change in net assets	341	-
NET ASSETS:		
BEGINNING OF YEAR	<u>4,795</u>	<u>4,740</u>
NET ASSETS:		
END OF YEAR	<u>\$ 5,136</u>	<u>\$ 4,740</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.

ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Ontonagon Area School District ("District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units, as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the District are described below:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant changes in the statement include the following:

An Administration's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all the District's activities.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The District has elected to implement the provisions of the Statement.

A. Reporting Entity

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it has been determined that there are no component units of the Ontonagon Area School District.

B. Basic Financial Statements – Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities except for fiduciary activities.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basic Financial Statements – Government-Wide Statements (Continued)

In the government-wide Statement of Net Assets, both the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities,

C. Basic Financial Statements – Fund Financial Statements

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped into generic fund types in two broad fund categories as follows:

Governmental Funds - Governmental funds are used to account for the acquisition, use and balances of expendable financial resources and the related current liabilities, except for those accounted for in fiduciary funds. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

General Fund - The General Fund is the primary operating fund of the District. It is used to account for all financial transactions of the District, except those required to be accounted for in other funds.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basic Financial Statements – Fund Financial Statements (Continued)

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or capital projects) that are legally restricted to expenditures for specified purposes. The District uses the Special Revenue Fund to account for the Ontonagon Area School District's activity.

Debt Service Funds – Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Funds – Fiduciary funds account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement.

Expendable Trust Fund – The expendable trust fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

Non-Expendable Trust Fund – The non-expendable trust fund is accounted for utilizing the accrual method of accounting. Non-expendable trust funds account for assets of which the principal may not be spent.

Agency Fund – The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity (primarily student activities).

Account Groups - Account groups are used to establish accounting control and accountability for the District's general fixed assets and long-term obligations. The following are the District's account groups:

General Fixed Assets – This group of accounts was established to account for all general fixed assets of the District.

General Long-Term Obligations - This group of accounts has been established to account for unmatured general long-term obligations and certain other liabilities of the District not expected to be liquidated through the use of available expendable financial resources.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus. The governmental-wide statement uses the economic resources measurement focus.

Accrual

Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available (susceptible to accrual). "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after the year end. A one year period is used for revenue recognition for all other governmental fund revenues. Those revenues prone to accrual are property taxes, federal aid, interest-revenue, and charges for services.

The District reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

State Foundation Revenue - For the fiscal year ended June 30, 2005, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on the average of pupil membership counts taken in February and September of 2004.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Expenditures and related liabilities are recognized when obligations are incurred as a result of the receipt of goods and services. Modifications include:

Principal and interest on general long-term debt are recorded as fund liabilities when due, or when amounts have been accumulated in the debt service fund for payments of principal and interest to be made early in the following year.

E. Cash and Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition. Cash and equivalent balances for individual funds are pooled unless maintained in segregated accounts.

F. Interfund Balances and Transfers

The current portion of lending/borrowing arrangements between funds are identified as "due to/from other funds". The non-current portion of outstanding balances between funds are reported as "advances to/from other funds". Advances between funds are offset by a fund balance reserve account to indicate that they are not available for appropriation and are not expendable available financial resources.

Transfers represent a flow of assets without equivalent flows of assets in return or a requirement for repayment.

G. Inventories and Prepaid Items

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the Special Revenue Fund consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

H. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

The District has adopted a capitalization policy of \$500.

I. Long-Term Debt

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group.

J. Compensated Absences

Amounts representing accumulated vacation and personal leave expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the government fund that will pay it.

K. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized as revenue when levied to the extent they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

The District, along with certain other governmental units, is permitted by the Constitution of the State of Michigan of 1963 to levy combined taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Debt Service Fund expenses if approved by a majority of the electors. The District must include certain tax levies of other governmental units located within the District, primarily the county, when determining the maximum millage of \$50 per \$1,000 of assessed valuation. For the year ended June 30, 2005, the District levied the following amounts per \$1,000 of assessed valuation:



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Property Taxes (Continued)

Fund Mills

General Fund - Non-Homestead	18.0
Debt Retirement	3.6

L. Unemployment Insurance

The District reimburses the Michigan Employment Security Commission (MESC) for the actual amount of unemployment benefits disbursed by the MESC on behalf of the District. Billings received for amounts paid by the MESC through June 30 are accrued.

M. Fund Balance

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of net current assets does not constitute "available spendable resources". Designated fund balances represents amounts set aside by the governing body for specific purposes such as capital improvements.

N. Budgets

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. All annual appropriations lapse at fiscal year end. The District follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budget is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances - budget and actual - all governmental fund types.
2. Public hearings are conducted to obtain taxpayer comments.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Budgets (Continued)

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred unless authorized in the budget, or in excess of the amount appropriated. Any material expenditures in violation of the budgeting act are disclosed in the footnotes.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.

The budget for the year ended June 30, 2005 was adopted on June 21, 2004 and formally amended on January 10, 2005 and June 20, 2005.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

NOTE 2 - CASH AND EQUIVALENTS- CREDIT RISK

Deposits

The District's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 750
Checking accounts	291,583
Certificate of deposit	<u>500,000</u>
TOTAL	<u>\$792,333</u>



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 2 - CASH AND EQUIVALENTS- CREDIT RISK (Continued)

Deposit Risk

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2005, the District's deposits were uninsured and uncollateralized in the amount of \$859,701.

Investments

The District's investments, as reported in the Statement of Net Assets, consisted of the following:

Michigan Liquid Asset Fund (MILAF)	<u>\$358,532</u>
------------------------------------	------------------

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Investments are recorded at fair market value, which is based on quoted market prices.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the District's investments. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investments are with the Michigan Liquid Asset Fund (MILAF) which consists of different funds including mutual funds with a high degree of liquidity, thus the District's investments are not subject to interest rate risk.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 3 - INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables for the year ended June 30, 2005 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Nonmajor governmental	<u>\$3,144</u>	General Fund	<u>\$3,144</u>

Interfund transfers for the year ended June 30, 2005 are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Nonmajor governmental	<u>\$109,965</u>	General Fund	<u>\$109,965</u>

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2005 follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>
Land and improvements	\$ 474,154	\$ -	\$ -	\$ 474,154
Building	3,043,818	-	-	3,043,818
Equipment	1,752,068	49,611	-	1,801,679
Vehicles	<u>575,707</u>	<u>112,413</u>	<u>(91,097)</u>	<u>597,023</u>
TOTALS	\$ 5,845,747	\$ <u>162,024</u>	\$ <u>(91,097)</u>	\$ 5,916,674
Accumulated Depreciation	<u>(4,407,666)</u>	\$ <u>(226,104)</u>	\$ <u>91,083</u>	<u>(4,542,687)</u>
Net Fixed Assets	\$ <u>1,438,081</u>			\$ <u>1,373,987</u>

Depreciation for the year ended June 30, 2005, amounted to \$226,104. The District determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 5 - LONG-TERM OBLIGATIONS

During the year ended June 30, 2005, the following changes occurred in long-term obligations:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005	Amounts Due Within One Year
General obligation bonds	\$2,992,684	\$2,485,000	\$(2,785,000)	\$2,692,684	\$172,855
Loans payable	40,267	106,000	(15,883)	130,384	33,717
Lease purchase	20,122	-	(7,249)	12,873	8,729
Early retirement contracts	<u>16,588</u>	<u>-</u>	<u>(8,294)</u>	<u>8,294</u>	<u>8,294</u>
TOTALS	<u>\$3,069,661</u>	<u>\$2,591,000</u>	<u>\$(2,816,426)</u>	<u>\$2,844,235</u>	<u>\$223,595</u>

NOTE 6 - BONDS AND NOTES PAYABLE

Long-term obligations at June 30, 2005 is comprised of the following amounts:

1. 1996 School Building Serial Bonds due in installments of \$55,000 to \$295,000 through May 1, 2016 plus interest at 4.875% to 6.875%. \$ 170,000
 2. 1998 Durant Bonds due in annual installments from \$4,141 to \$19,547 through May 15, 2013, with interest at 4.76%. 37,684
- The annual State of Michigan appropriation is the only revenue source for making the annual payments on the Durant Bonds. The District is under no obligation to make the annual payment in any year the legislature fails to appropriate the proper amount of funds.
3. Bus Contracts payable at interest rates of 3.95% to 5.75%. All loans are secured by the buses. 130,384
 4. 2005 Refunding Bonds due in annual installments of \$185,000 to \$270,000 through May 1, 2017 with interest at 3% to 4%. 2,485,000
 5. Early retirement incentive. 8,294
 6. Capital lease for a copier payable \$868 monthly including imputed interest 12,873
- TOTAL LONG-TERM OBLIGATIONS \$ 2,844,235



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 6 - BONDS AND NOTES PAYABLE (Continued)

The annual requirements to amortize long-term obligations outstanding as of June 30, 2005 are as follows:

Year Ended June 30	Bond Issues		Installment Notes and Leases		Teachers Early Retirement Commitment	Total
	Principal	Interest	Principal	Interest		
2006	\$ 172,855	\$ 112,308	\$ 42,446	\$ 6,631	\$8,294	\$ 342,534
2007	187,990	92,609	30,272	3,650	-	314,526
2008	198,134	86,917	17,633	2,612	-	305,296
2009	203,283	80,430	17,633	1,916	-	303,262
2010	213,439	73,773	17,634	1,219	-	306,065
2011-2015	1,186,983	248,965	17,634	523	-	1,454,105
2016-2020	<u>530,000</u>	<u>32,000</u>	-	-	-	<u>562,000</u>
TOTALS	<u>\$2,692,684</u>	<u>\$ 727,002</u>	<u>\$ 143,257</u>	<u>\$ 16,551</u>	<u>\$8,294</u>	<u>\$3,587,788</u>

Interest expense for the year ended June 30, 2005 was \$150,826.

NOTE 7 - FUND BALANCES

Portions of fund balances are reserved or designated and not available for general purposes other than fund usage as follows:

	<u>Reserved</u>	<u>Unreserved Designated</u>
Debt Service	\$185,186	\$ -
General Fund:		
Technology capital expenditures	-	100,790
Severance expenses	-	75,000
Major building expenditures	-	70,064
Large equipment expenditures for food service	<u>-</u>	<u>3,800</u>
Totals	<u>\$185,186</u>	<u>\$249,654</u>



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990 made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The District contributed 14.87% of covered compensation through June 30, 2005 to the Plan. The total amount contributed to the Plan for the year ended June 30, 2005 was \$515,121, which consisted of \$422,241 from the District and \$92,880 from employees electing the MIP option.

These represent approximately 14.20% and 3.12% of covered payroll, respectively. The payroll for employees covered by the System for the year ended June 30, 2005 was approximately \$2,973,191. The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employees service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPERS fund status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among MPERS and employers. The MPERS does not make separate measurements of assets and pension benefit obligations for individual districts.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

As of September 30, 2004 for the MPSERS as a whole, the actuarial accrued liability was \$42 billion. The pension plan net assets were \$36.8 billion, resulting in a ratio of pension assets at market value to the actuarial accrued liability of 86.5%. Employer contributions are based upon level-percent-of-payroll principles so that the contribution rates do not have to increase over decades of time.

The District's 2004 contribution represented less than 1% of total contributions required of all participating entities.

Ten year historical trend information showing the MPSERS progress in accumulating sufficient assets to pay benefits when due is presented in the MPSERS September 30, 2004 annual report.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

The following is a summary of plan provisions:

Regular Retirement (no reduction factor for age)

Eligibility – Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years.

Mandatory Retirement Age – None.

Annual Amount – Total credited service times 1.5% of final average compensation.

Final Average Compensation – Average of highest 5 consecutive years (3 years for MIP members).

Early Retirement (age reduction factor used)

Eligibility – Age 55 with 15 or more years credited service and earned credited service in each of the last 5 years.

Annual Amount – Regular retirement benefit, reduced by ½% for each month by which the commencement age is less than 60.

Deferred Retirement (vested benefit)

Eligibility – 10 years of credited service. Benefit commences at the time age qualification is met.

Annual Amount – Regular retirement benefit based on service and final average compensation at time of termination.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Duty Disability Retirement

Eligibility – No age or service requirement; in receipt of workers' disability compensation.

Annual Amount – Computed as regular retirement benefit with minimum benefit based on 10 years credited service. Additional limitation such that disability benefits plus authorized outside earnings limited to 100% of final average compensation (increased by 2% each year retired).

Non-Duty Disability Retirement

Eligibility – 10 years of credited service.

Annual Amount – Computed as regular retirement benefit based on credited service and final average compensation at time of disability. Additional limitation such that disability benefits plus authorized outside earnings limited to 100% of final average compensation (increased by 2% each year retired).

Duty Death Before Retirement

Eligibility – No age or service requirement. Beneficiary is in receipt of workers' compensation. Also applies to "duty disability" retirees during first three years of disability.

Annual Amount – Spouse benefit computed as regular retirement benefit with minimum benefit based on ten years of credited service, reduced for 100% joint and survivor election. If no surviving spouse, children under 18 share in benefit; if no spouse or children, a disabled and dependent parent is eligible.

Non-Duty Death Before Retirement

Eligibility – 15 years of credited service, or age 60 and 10 years of credited service. 10 years of credited service, or age 60 and 5 years of credited service for MIP members.

Annual Amount – Computed as regular retirement benefit, reduced in accordance with a 100% joint and survivor election, with payments commencing first of month following death. For the beneficiary of a deferred member, benefit commences at the time a member would have attained the minimum age qualification.

Post-Retirement Cost-of-Living Adjustments

One-time upward adjustments have been made in 1972, 1974, 1976 and 1977 for members retired on or after July 1, 1956 and prior to July 1, 1976 who were eligible for Social Security benefits. For members who retired prior to July 1, 1956 and not eligible for Social Security benefits based upon membership service, the minimum base pension was increased in 1965, 1971, 1972, 1974 and 1981, and in 1976 and 1977 one-time upward adjustments were made.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

Beginning in 1983, eligible recipients received an annual distribution of investment earnings in excess of 8% (supplemental payment). On January 1, 1986, all members who retired prior to January 1, 1986 were given a permanent 8% increase. On January 1, 1990 a one-time upward adjustment for members who retired prior to October 1, 1981 was made.

Currently members receive annual increases based on the following schedule:

Retired before January 1, 1987 – Greater of Supplemental payment or automatic 3% increase

Retired on or after January 1, 1987 under MIP – Automatic 3% increase only

Retired on or after January 1, 1987 not under MIP – Supplemental payment only

Post-Retirement Health Benefits

Members in receipt of pension benefits are eligible for fully System paid Master Health Care Plan coverage (90% System paid Dental Plan, Vision Plan and Hearing Plan coverage) with the following exceptions:

1. Members not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Members with less than 30 years of service, who terminate employment after October 31, 1980 with vested deferred benefits, are eligible for partially System paid health benefit coverage (no System payment if less than 21 years service).

Dependents are eligible for 90% System paid health benefit coverage (partial System payment for dependents of deferred vested members who had 21 or more years of service).

Member Contributions

MIP Participants hired before January 1, 1990 – 3.9% of pay.

MIP Participants hired on or after January 1, 1990 – 3.0% of first \$5,000 of pay, plus 3.6% of next \$10,000 of pay, plus 4.3% pay in excess of \$15,000.

Non-MIP Participants – None.

A summary of Actuarial Assumptions and Methods is as follows:

1. The investment return rate used in making the valuations was 8% per year, compounded annually. This rate of return is not the assumed real rate of return. The real rate of return is the rate of investment return in excess of the inflation rate. Considering other financial assumptions, the 8% long range investment return rate translates to an assumed real rate of return of 4%. Adopted 1997.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)

2. The mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table. Adopted 1998.
3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 1998.
4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page of this report. Adopted 1998.
5. Total active member payroll is assumed to increase 4% per year. This represents the portion of the individual pay increase assumptions attributable to inflation. In effect, this assumes no change in the number of active members. Adopted 1997.
6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Adopted 1975. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are funded over 50 years and over 40 years on a declining basis beginning October 1, 1996. Adopted 1996.
7. Valuation assets (cash and investment) were reset to market value as of September 30, 1997. After this date, they will again be valued using a five year smoothed market value method. The excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) that occurs after September 30, 1997 over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over five years. Adopted 1997.
8. The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.
9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the System's Board and the Department of Management and Budget after consulting with the actuary.

Other Post-Employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage. These benefits are not included in the pension benefit obligation referred to above.



ONTONAGON AREA SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2005

(Continued)

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participated in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said year, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

NOTE 10 - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 11 - SIGNIFICANT ESTIMATES

Included in footnote 8 is a summary of the employee retirement plan provisions and actuarial assumptions. The actuarial assumptions are very critical to the computation of actuarial determined liabilities of the plan. If the assumptions differ from actual results annual contributions to the defined benefit plan can substantially change.





REQUIRED SUPPLEMENTAL INFORMATION

ONTONAGON AREA SCHOOL DISTRICT**SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (Budgetary Basis) (See Note 1)
	Original	Final	
REVENUES:			
Local sources	\$ 1,051,025	\$ 1,110,090	\$ 1,098,491
State sources	3,518,383	3,417,265	3,412,739
Federal sources	279,942	264,275	271,706
TOTAL REVENUES	4,849,350	4,791,630	4,782,936
EXPENDITURES:			
Instruction:			
Current	3,268,250	3,265,005	3,140,652
Capital outlay	41,500	54,100	45,091
Supporting services:			
Current	2,018,225	2,080,192	1,911,615
Capital outlay	79,500	141,000	117,107
TOTAL EXPENDITURES	5,407,475	5,540,297	5,214,465
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(558,125)	(748,667)	(431,529)
OTHER FINANCING SOURCES (USES):			
Payments received from other governmental units	366,304	407,520	411,647
Other sources	1,000	130,675	8,585
Loan proceeds	55,000	106,000	106,000
Other (uses)	(52,000)	(52,000)	(17,404)
Transfers out	(115,000)	(118,600)	(109,965)
TOTAL OTHER FINANCING SOURCES (USES)	255,304	473,595	398,863
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(302,821)	(275,072)	(32,666)
FUND BALANCE, JULY 1	845,517	845,517	845,517
FUND BALANCE, JUNE 30	\$ 542,696	\$ 570,445	\$ 812,851

The accompanying notes to the financial statements are an integral part of this statement.





OTHER SUPPLEMENTAL INFORMATION

ONTONAGON AREA SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2005

	Food Service	Athletics	Debt Service	Total Nonmajor Governmental
ASSETS:				
Cash and equivalents	\$ 65,494	\$ -	\$ 40,617	\$ 106,111
Investments	-	-	17,175	17,175
Accounts receivable	2,737	5,950	-	8,687
Inventory	6,768	-	-	6,768
Due from other funds	-	15,525	40,232	55,757
Other assets	27	-	87,162	87,189
TOTAL ASSETS	\$ 74,999	\$ 21,475	\$ 98,024	\$ 281,687
LIABILITIES:				
Accounts payable	\$ 544	\$ 3,376	\$ -	\$ 3,920
Bank overdraft	-	12,875	-	12,875
Due to other funds	41,774	10,839	-	52,613
Accrued expenses	-	-	-	-
TOTAL LIABILITIES	42,318	27,090	-	69,408
FUND BALANCE AND OTHER CREDITS:				
Fund balances:				
Reserved	-	-	185,186	185,186
Unreserved-Undesignated	32,708	(5,615)	-	27,093
TOTAL FUND BALANCE AND OTHER CREDITS	32,708	(5,615)	185,186	212,279
TOTAL LIABILITIES, FUND BALANCE AND OTHER	\$ 75,026	\$ 21,475	\$ 185,186	\$ 281,687

The accompanying notes to the financial statements are an integral part of this statement.



ONTONAGON AREA SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2005

REVENUES:	Food Service	Athletics	Debt Service	Total Nonmajor Governmental
Local sources	\$104,056	\$ 29,649	\$340,962	\$ 474,667
State sources	22,572	-	-	22,572
Federal sources	133,069	-	-	133,069
TOTAL REVENUES	259,697	29,649	340,962	630,308
EXPENDITURES:				
Supporting services:				
Debt service	-	-	453,264	453,264
School service activities	267,989	128,698	-	396,687
TOTAL EXPENDITURES	267,989	128,698	453,264	849,951
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,292)	(99,049)	(112,302)	(219,643)
OTHER FINANCING SOURCES (USES):				
Transfers in	15,642	94,323	-	109,965
TOTAL OTHER FINANCING SOURCES (USES)	15,642	94,323	-	109,965
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	7,350	(4,726)	(112,302)	(109,678)
FUND BALANCE, JULY 1	25,358	(889)	297,488	321,957
FUND BALANCE, JUNE 30	\$ 32,708	\$ (5,615)	\$185,186	\$ 212,279

The accompanying notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Education
Ontonagon Area School District
Ontonagon, Michigan

We have audited the financial statements of the Ontonagon Area School District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ontonagon Area School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ontonagon Area School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Co. PLLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Iron Mountain, Michigan
September 30, 2005

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

